

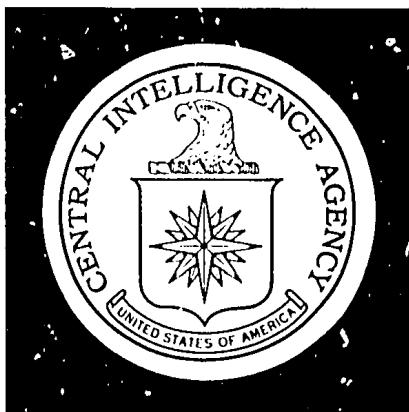
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Secret

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OFFICE OF
NATIONAL ESTIMATES

MEMORANDUM

*Surinam: Political Currents and United States
Aluminum Interests*

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4 June 1971

CENTRAL INTELLIGENCE AGENCY

OFFICE OF NATIONAL ESTIMATES

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MEMORANDUM

SUBJECT: Surinam: Political Currents and United States
Aluminum Interests*

NOTE

In November 1970) we examined the racial tensions and problems arising from political and economic developments in the Caribbean basin. In this paper we take a closer look at Surinam, a small nearby mainland country which to date has been a calm, capitalistic oasis, despite potential difficulties. The Memorandum assesses the prospects over the next year or two for the large US investment in Surinamese bauxite, alumina, and aluminum production. Special attention is given to the impact on Surinam of the imminent nationalization of bauxite investments in Guyana, latent racial frictions, and the pressures coming to bear on Surinam's leaders to provide more benefits to the populace.

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* *This Memorandum was prepared by the Office of National Estimates and coordinated within the Central Intelligence Agency.*

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1. Surinam is tucked away on the northeast shoulder of South America. Its 400,000 people are isolated from the Latin countries of the continent by geography, race, language, and cultural traditions. The country is one of the three internally autonomous members of the Kingdom of the Netherlands.^{1/} Long association with the Dutch has given the country a tradition of public order and slow but systematic development. Surinam's major domestic problems arise from tensions in its multiracial society and the recent slowdown in economic growth. Racial frictions stem from the rivalry between the two main groups, the Creoles (blacks and mixed blacks) and the East Indians.^{2/} Up to now the blacks and East Indians have lived together with only minor racial disturbances. This has been due in part to enlightened political leadership and in part

^{1/} Surinam is autonomous in internal politics, but is subordinate to the Kingdom government in all defense and foreign affairs and major "domestic" decisions which affect the Kingdom as a whole. Surinam is an Associate Member of the European Common Market. It is not a member of any regional Latin American organization.

^{2/} The 1964 census listed the racial composition of the population as follows: Creoles 39%, East Indians 38%, Indonesians 17%, Chinese 2%, European 2%. Amerindians 1%, and unknown 1%. Included in this melange are 27,000 Bush negroes and 4,000 Amerindians living in a tribal society in the interior.

Approved For Release 2007/02/08 : CIA-RDP85T00875R002000110020-2

SECRET

SECRET

Approved For Release 2007/02/08 : CIA-RDP85T00875R002000110020-2

to the fact that East Indians have been rural dwellers while the blacks have concentrated in the city. Tensions are increasing, however, as the East Indians begin to move into the cities; this is clearly the most ominous national problem.

2. Surinam is one of the few underdeveloped nations that has a completely integrated bauxite-alumina-aluminum operation. It ranks second only to Jamaica as a producer and exporter of bauxite and alumina in the Caribbean, and it possesses considerable unexploited reserves. Constructed largely during the 1960s, the industry accounts for about 30 percent of Surinam's GDP. In 1969 bauxite, alumina, and aluminum made up approximately 90 percent of exports.

3. US interest in the country is centered almost entirely on bauxite. US aluminum producers are concerned that other leading bauxite producing countries in the Caribbean may follow the lead of Guyana, which is preparing to nationalize its major bauxite company.* About 80 percent of the total US

* Prime Minister Forbes Burnham has moved to nationalize the Demerara Bauxite Company, a subsidiary of the Aluminum Company of Canada and the major producer of bauxite in Guyana. (Reynolds Metals, a US company, also has holdings in the country.) Terms are still being negotiated, but takeover by the Burnham government now seems likely to occur some time in July or August.

Approved For Release 2007/02/08 : CIA-RDP85T00875R002000110020-2

SECRET

SECRET

Approved For Release 2007/02/08 : CIA-RDP85T00875R002000110020-2

bauxite consumption in 1969 was imported, almost all of it from the Caribbean. Approximately 23 percent of this amount was imported from Surinam.* Private US investment in the country is now close to \$200 million (book value), most of it representing properties of the Surinam Aluminum Company (SURALCO), a subsidiary of the Aluminum Company of America (ALCOA). SURALCO has developed extensive exploration sites and has constructed an alumina refining plant. It has also constructed an aluminum smelter and financed a hydro-electric facility on the Surinam River. Other US investors have recently concluded agreements with the government for bauxite and timber exploration which when completed could put total US investment well over \$300 million.

4. The pending nationalization of the leading bauxite property in Guyana has not influenced Surinam's Minister-President Jules Sedney to follow suit. Sedney, an economist, appears convinced that the solution to Surinam's economic problems will depend largely on foreign capital. Sedney has

* *There are other sources of bauxite likely to be developed by US companies over time, e.g., in Australia and Guinea, but these sources are currently more costly to exploit, compared to Surinam.*

Approved For Release 2007/02/08 : CIA-RDP85T00875R002000110020-2

SECRET

recently submitted a bill calling for higher corporate tax rates.* There is also increasing pressure for government participation in new undertakings. But the government still provides a fairly attractive climate for foreign investment. Like Jamaican Prime Minister Shearer, Sedney is confident that his country will benefit by the contrast to Guyana's recent move against foreign investment in bauxite. In reaction to events in Guyana, he has been in contact with Shearer and both have taken firm positions against nationalization. Sedney is nevertheless highly sensitive to the impact Burnham's scheme may have on domestic politics. He is acutely aware that if the Surinamese public comes to believe that the Guyanese experiment is successful, he will be faced with strong pressures to follow the same course.

5. Political life in Surinam is drawn along racial lines, and therein lies the source of potential political

* *SURALCO, whose rates are not touched by this legislative proposal, pays a corporate income tax of only 30 percent of profits. A recent agreement with Reynolds calls for a tax rate of 36 percent until 1989, at which time it will be increased to 40 percent. Each year thereafter the rate will increase by one percent until a maximum of 45 percent is reached. In addition, the agreement gives the government the option of buying a 50 percent share of new undertakings.*

SECRET

Approved For Release 2007/02/08 : CIA-RDP85T00875R002000110020-2

instability. The elections of October 1969 resulted in a coalition government of the East Indian United Hindu Party (VHP) and the black-dominated National Progressive Party (PNP). Together they control 27 of the 39 seats in the unicameral legislature. Although the VHP won 18 seats, its leader, Jagernath Lachmon, declined to seek the Minister-Presidency or a cabinet position, preferring instead to remain as the power behind the scene. He probably calculated that the time had not yet arrived when an East Indian could occupy the Minister-Presidency without arousing racial tensions in the black community. Whatever his motives, he supported the appointment of Jules Sedney, the black leader of the PNP, as Minister-President. Although East Indians now outnumber blacks, the latter are a majority in the legislature and, as in Guyana, hold the levers of political power. The current political relationships are not very firm, however, nor is Sedney's grip on power very secure. Hence further shifts in political alignment are likely.

6. Adding to his political difficulties, Sedney faces some sticky economic problems. The government is suffering growing budgetary strains. The budget deficit for 1969 was about 20 percent of expenditures. It was probably about 30 percent in 1970 and is expected to be the same in 1971. An

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SECRET

SECRET

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inefficient tax collection system, a swollen public payroll (25 percent of a labor force of 100,000), and increasing public investment are largely responsible for the growing deficit. The Netherlands government is expected to cover the 1971 deficit and to continue to supply a similar level of support in the future.* But it is also putting pressure on Sedney to clean up his fiscal household. Specifically, the Realm is urging him to reduce the government work force and hold the line on wages. These remedies -- particularly a reduction of government workers -- would be likely to spark resentment among Sedney's sensitive black constituency which comprises the bulk of urban labor. Thus, though the government has put a freeze on government hiring and has raised taxes on a variety of imported and luxury items, Sedney is reluctant to take any steps to slim down the public work force.

7. His hesitation is understandable. Government workers have gone without a raise since mid-1969 and are now threatening to strike. It is unlikely that the government employees'

* Between 1957-1967 the Netherlands Government contributed \$115.5 million to Surinam. A Five Year Plan (1968-1972) calls for Dutch aid of \$64.2 million with almost double that amount projected for the second Five Year Plan (1973-1977). The Netherlands derives little commercial benefit from Surinam in relation to its costs.

Approved For Release 2007/02/08 : CIA-RDP85T00875R002000110020-2

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SECRET

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union can be put off indefinitely, but it is difficult to see where Sedney will find the money to meet the union's demands for a 25 percent pay increase. The union, which has supported the regime, is a significant political force in Surinam and Sedney is acutely aware that it was a teachers' strike which led to the ouster of the predecessor government in 1969.

8. The situation of the government workers is only a specific example of Surinam's general economic bind. Between 1954-1967 the country enjoyed a high rate of economic growth. This was due to the exploitation of Surinam's considerable bauxite reserves and the development of its infrastructure at a rapid pace under the heavy influx of private foreign investment and large transfers of economic aid, principally from the Netherlands. Since 1967, however, the rate of growth of GNP has dropped dramatically. There has been a sharp decline in investment in the bauxite sector, and only a moderate rise in other fixed investments. This slower growth rate has been accompanied by strong upward pressures on prices and wages. Since 1967 prices, led by foodstuffs, have increased at a rate of six percent per year due in large part to poor harvests and an inadequate distribution system. Unemployment has also been on the rise. The employment boom that came from the construction of infrastructure projects and bauxite facilities has

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SECRET

since tapered off, with nothing to replace it. The government is unable to take any more of the jobless on its rolls, and unemployment now stands at about 20 percent of the labor force.

9. Although a government employees' strike would have economic motivation, political discontent will provide additional impetus. Sedney's PNP seems to be losing some grass roots and youth support to opposition parties, largely because of its cooperation with the East Indians. The opposition consists principally of the National Party of Surinam, the small but influential Nationalistic Republic Party, some PNP defectors and a sprinkling of Black Power militants. All of these elements are influential in the leadership of the unions, including the government employee unions. Recently, there have been indications of increasing cooperation between the two opposition parties. The possibility is growing that they will attempt to merge and form a single party large enough to compete with the other major parties in the 1973 elections.

10. There is no avowed communist group involved in all this. Edward Bruma, the country's most powerful union leader and head of the Nationalistic Republic Party, professes admiration for communist Cheddi Jagan of Guyana, but his political following is small and he holds his party's only seat in the legislature. In the past Bruma has espoused

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Approved For Release 2007/02/08 : CIA-RDP85T00875R002000110020-2

ultranationalistic policies, including immediate independence for Surinam, but recently he has backed away from this position.

11. For the most part independence has not been an emotional issue in Surinam, although it is in the back of everyone's mind. The problem is not whether to seek independence, but when. The government of the Netherlands has already decided in principle to grant Surinam its independence within a 5-7 year time frame. The Dutch want the process to be orderly. The Sedney government favors the Dutch timetable, presumably reflecting the dominant sentiment in the black community. The blacks cite the need to overcome budgetary problems, the lack of an adequate government structure, and the need to develop an indigenous defense force as arguments against immediate independence. Here, too, racial considerations enter the picture: East Indians also favor the present government policy, calculating that by the mid-1970s their growing numbers will put them in an even better position to win elections. Only a handful of militant blacks are demanding immediate separation from the Realm.

12. Over the next several years, unresolved economic and racial problems are likely to continue to dominate the scene. New private investments during this period will not be sufficient to provide immediate relief to the country's more pressing

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SECRET

SECRET

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economic problems. Political tensions will persist, as opponents of the government try to capitalize on racial differences and economic troubles. To date, however, these tensions have produced only minor disorders. What violence that does occur is likely to be directed against the government on local social and economic issues rather than against outside business interests. US investment is unlikely to become a primary target. There is relatively little anti-American sentiment and little interest in economic nationalism; US firms generally enjoy a good reputation in the country.

13. The 800-man Surinam police force can handle minor disorders. It is backed by a Dutch Army of some 1,000 troops which should be capable of maintaining order under most likely circumstances. And *in extremis* there is a larger Dutch force in Curacao which could be brought onto the scene. The security picture will not be so bright over the next few years, however, as the Dutch Army is gradually replaced by a Surinamese Army now being formed.

14. Between now and independence, there is little likelihood that the government will move to nationalize foreign investments. The political leadership now in power or likely to gain power in this period will probably want to maintain a high rate of foreign investment and will continue to promote a

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favorable investment climate -- especially if, as seems likely, the Dutch use their considerable leverage to encourage them to do so. Domestic economic pressures are already forcing the government to tighten its terms for investment, however, and further demands on foreign companies seem likely. But these demands will probably stem from a real need for revenue rather than from impulses toward economic nationalism. On balance, over the next several years the terms for foreign investors are likely to remain attractive, particularly so when contrasted with the increasingly nationalistic policies of most Latin American countries.

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